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Two-way trade with the rest of the world has been a major factor in Canada's economic growth throughout its first 100 years and more of development as a nation, and will become increasingly so in its second century.

Canada's export-import trade totalled nearly $93 billion[1] in 1978. This can be compared to about $148 billion for Britain and $327 billion for the United States. On a *per capita* basis, the comparison is considerably in favour of Canada (Canada $3,958; Britain $2,647; U.S. $1,497), although, on the same basis, some smaller developed countries, such as Belgium and the Netherlands, have even higher *per capita* export ratios. Nevertheless, Canada, with no more than 0.6 per cent of the world's population, has a share of world trade that is close to 4 per cent and its share of world output of goods and services in 1977 was estimated at 2.4 per cent.

Canada in the late 1970s ranked about ninth among world traders.

Export-led expansion is a fundamental fact in Canadian economic history. Since Confederation in 1867, exports have grown one-third as fast again as the total rate of Canadian expansion — and twice as fast as the trade of the rest of the world.

Trading partners

When this skeletal outline of Canada's position in world trade is put into historical perspective, it will be seen that there are certain clearly-defined directions in which Canadian trade patterns have developed:

(1) a long-standing two-way trade association with the United States, which has expanded rapidly in recent years;

(2) a relatively slow growth in trade with Britain since the Second World War, which has dropped sharply in relative terms since Britain joined the European Common Market;

(3) a continuing (though relatively small) flow of trade between Canada and other Commonwealth Countries;

(4) fluidity in trade exchanges with the rest of the world.

Thus in the past decade or so, there has been a significant shift in Canadian trading patterns, by markets and suppliers, and by commodities and products, when compared with the years prior to the Second World War. The shift is even more pronounced when the development of Canada as a world trader is traced back to the years before the First World War.

Before 1914, Canada was basically a producer of food and raw materials and, as such, benefited greatly from well-recognized patterns of world trade. This pattern saw a preponderant flow of primary products of all kinds from all parts of the world to Europe, with Britain as its centre of gravity. From Europe, in return, came a preponderant outflow of capital and services.

1 Value given in international units = $U.S.

Canada oriented itself towards Europe, and particularly towards Britain, as a source of capital equipment to develop its economy and as a ready market for its raw materials. At the same time, while Britain was also a major source of the goods Canada needed to import, it was overshadowed by the United States as the principal supplier of foreign goods.

After the First World War, the United States also became the major source of development capital (and remains so today). In the depressed 1930s, preferential tariffs raised the share of Britain and other Commonwealth countries in Canada's external trade. As a result, the predominant triangular pattern of Canadian trade was maintained. Britain and the U.S. took well over one-third of Canada's exports each; the U.S. supplied nearly two-thirds of Canada's import needs and Britain nearly one-fifth.

In the years since the Second World War, slow growth in Britain has been paralleled by slow development in its trade with Canada, while the United States has become significantly more important to Canada. At the same time, Canada is the largest customer and supplier of the United States, though American dependence on trade in general, or on its next-door neighbour in particular, is much less than Canada's.

In 1978 Canada was selling some 70 per cent of its exports to the United States, 6 per cent to Japan, 4 per cent to Britain, 6 per cent to other EEC countries and the remaining 14 per cent to other countries.

In recent years, in part because of poor crops in their territories, the Soviet Union, Eastern Europe and mainland China became large buyers of Canadian wheat. In 1968 some 7.6 per cent of Canadian exports went to these countries but, with improved crops since then, the share has fallen below 3 per cent. Japan, the European Economic Community and Latin America are also significant markets for Canada. At the same time, the developing countries (to be discussed later) are receiving considerable attention from Canada as potential markets for its goods and services.

The United States continued as the most important single source of imports, supplying 71 per cent of Canada's needs in 1978 compared with 6 per cent for EEC countries other than Britain. Britain supplied 4.5 per cent of Canadian imports, as did Japan.

In 1978, a year of generally strong growth in world trade and production, Canada's exports increased substantially to the U.S. and at a somewhat slower, but still significant, pace to the traditional overseas markets.

The nature and extent of the geographical shifts in Canadian trading patterns over the years is shown in the tables on the following page.

Gains in manufacturing
With these shifts in the geographical direction of Canada's trade, significant changes have also taken place in the content of that trade. They started with the onset of the First World War. Until then, Canadian trade had grown steadily through the export of staples and the import of capital equipment and manufactured goods. As the war progressed and greatly increased its demands on the productive capacity of the major allies, Canada developed as an industrial producer (though on a somewhat limited scale). This development was accelerated considerably in the years after the war. A principal factor was the establishment of branch plants in Canada, particularly by United States industries. In many cases, branch plants were established or expanded to take advantage of imperial tariff preferences.

The result was a sizable upsurge in exports of manufactured goods from Canada, the pace of which was accelerated yet again by the exigencies of the Second World War, and then again by the demands of the immediate postwar period as the war-torn countries tackled the urgent problems of reconstruction and pent-up demand.

Canadian trade by selected areas

(as a percentage of total trade)

Exports

	1911	1931	1937	1947	1957	1967	1971	1973	1978
United States	38.0	45.6	36.1	37.3	59.4	64.2	67.5	67.7	70.0
Britain	48.2	26.3	40.3	27.1	15.0	10.3	7.8	6.3	3.8
Japan	0.2	0.5	3.2	neg.	2.8	5.0	4.7	7.1	5.8
USSR and China	0.6	0.4	2.9	0.7	0.2	1.9	1.9	2.3	2.2
EEC (Other)	2.9	12.9	3.8	8.4	8.2	6.0	6.2	6.0	5.5
Others	10.1	13.3	13.7	26.5	14.4	12.5	12.0	10.5	12.7

Imports

	1911	1931	1937	1947	1957	1967	1971	1973	1978
United States	60.8	69.0	60.7	76.7	71.1	73.1	70.1	70.8	70.6
Britain	24.3	17.3	18.2	7.4	9.3	6.0	5.4	4.3	4.5
Japan	0.5	0.9	2.0	neg.	1.1	3.6	5.1	4.4	4.5
EEC (Other)	6.2	2.5	4.6	1.0	4.2	5.8	6.0	6.0	6.1
Others	7.8	10.3	13.1	17.9	15.9	11.5	13.4	14.6	14.3

The gains thus made by Canada as an industrial producer had to be consolidated, and in some cases adjusted, in the 1950s as world industry and exports regained their competitive positions. Again, in the 1960s and early 1970s, Canadian export trade expanded considerably in diversity and in specialization in manufactures.

The development of manufacturing as a major feature of the Canadian economy is delineated in broad terms in the table below.

As may be noted, manufacturing is by far the largest single goods-producing sector of the Canadian economy with more than half the value of goods production. The relative importance of

Gross domestic product at factor cost for Canada's goods-producing industries

(Selected years-rounded percentages of total production)

Industry	1927	1937	1947	1957	1967	1977
Agriculture	35	22	22	10	9	8
Forestry, fishing and trapping	4	5	5	3	3	2
Mining	7	15	7	8	9	11
Manufacturing	45	52	53	55	57	52
Construction	8	7	10	14	15	18
Utilities	–	–	4	10	6	8

Canadian domestic exports — percentage distribution by major commodity group, selected years

	1962	1967	1972	1977
Food, feed, beverages and tobacco	20	15	12	10
Inedible crude materials (including petroleum gas)	22	19	18	20
Inedible fabricated materials	47	38	33	34
Finished manufactured goods	11	28	36	35

agriculture and other primary industries has tended to diminish over time while construction and utilities are becoming progressively more significant.

The more important role played by manufactured products in Canadian export trade is illustrated in the table at the bottom of page 4.

A rough approximation of "manufactured exports" (excluding edible products) may be obtained by combining "inedible fabricated materials" with "finished manufactured goods". On this basis, close to 70 per cent of Canadian exports were in this category in 1977 compared with 58 per cent in 1962. The relative increase has been the greatest in fully finished manufactured products. If edible end products (e.g. whisky) were to be included, about three-quarters of Canada's exports now consist of either partly or fully manufactured goods.

Food and crude materials, though still important in Canadian exports accounted for only about 30 per cent of all shipments in 1977 compared with 42 per cent in 1962. This does not mean that the actual values are becoming less significant. This is far from being the case. For example, Canadian exports of wheat in 1977 were valued at $1.8 billion compared with about $600 million in 1962. At the same time, animal and other edible product exports were valued at $2.7 billion in 1977 compared with only about $600 million in 1962.

At the same time, exports of ores and concentrates also climbed from a value of about $700 million in 1962 to $2.7 billion in 1977. A particular highlight during this period was the increase in Canadian exports of crude petroleum and natural gas which went from about $300 million in 1962 to $3.8 billion in 1977.

Canada's specialization in mineral and forest products is exemplified by a rapid expansion of Canadian exports in this sector. A particular highlight is the fact that Canadian shipments abroad in 1977 of lumber, woodpulp and newsprint were valued at close to $7 billion compared with $1.5 billion in 1962. At the same time, Canadian exports of fabricated metals (copper, zinc, nickel, aluminum, etc.) was valued at $3.5 billion in 1977 compared with about $900 million in 1962.

Canada leads the world in mineral exports and ranks third in mineral production behind the United States and the Soviet Union. The mineral industry has been and remains a major factor in Canada's economic development.

The strength of the industry is based on export sales. About 82 per cent of total mineral production is exported with major consumers being the United States, the European Economic Community and Japan.

The most spectacular element in the increase in Canada's exports of fully finished goods has come about because of the rationalization of the Canadian and United States automo-

tive industries effected by the Automotive Agreement that was ratified by the two countries in 1965. This was a move designed to create, over a period, a common market in automotive products in North America. For Canada this produced exports of over $10 billion in 1977 compared with less than $100 million in 1962. At the same time, the rationalizaiton process has also meant strong increases in Canadian imports of automotive goods.

Apart from the motor vehicles and parts, notable progress has also been made in increasing Canadian exports of industrial machinery and equipment which in 1977 was valued at about $4 billion compared with about half a billion dollars in 1962.

Fully finished consumer goods exports (other than automotive products) have also increased strongly in the period since the early Sixties.

Canada and the world economy

By any measurement or yardstick, Canada has one of the highest standards of living in the world on a *per capita* basis. Sharp movements in international exchange rates make comparisons of standards of living over time particularly hazardous. However, OECD statistics in a recent year show Canada ranked second only to the United States in consumer spending *per capita* among the 24 OECD countries. Canada ranked very close to the top in passenger cars, television sets, doctors *per capita,* etc. Interestingly, Canada ranked the very highest in terms of "access to higher education".

At the same time, Canadian dependency on its external trade is significantly higher than that for its traditional trading partners — the U.S., Japan and Britain. Currently, about 27 to 28 per cent of the total Canadian gross national product consists of either exports or imports of goods and services.

Position of Canadian manufacturing

It is fully recognized in Canada that the future of its export trade, particularly in manufactured products, is closely related to its ability to improve its industrial productivity or efficiency. To this end, the Canadian Government provides assistance to Canadian industrial companies, which takes many forms including grants, loans, loan guarantees, tax concessions, etc., to bring about advances in technology, and generally encourages development of products and processes which will enhance the international competitiveness of Canadian industry.

One result is that Canadian industry is becoming increasingly specialized or rationalized. The tables that follow suggest the trends in export orientation (share of production exported), import penetration (share of Canadian market supplied by imports) and the degree of self-sufficiency (share of Canadian market supplied by Canadian production) for the major manufacturing sectors. Trade balances (customs valuation basis) are also included. Selected

examples of key manufacturing sub-sectors are also included in the tables.

As may be noted, both export orientation and import penetration have generally been increasing, suggesting the increased degree of specialization or rationalization of Canadian industry. The key sectors within manufacturing generating large export surpluses are the wood industries, paper and allied, and primary metals. Nearly all the other major manufacturing sectors show trade deficits.

In general terms, Canadian manufacturing output nearly matches the domestic utilization of manufactured products although obviously there are major surpluses in some sectors (e.g. paper and allied) and major deficiencies in others, e.g. machinery industries and miscellaneous manufacturing.

As already noted, much of Canada's export trade is based on its natural resource base. These have had an all-pervading influence on the country's economic development.

Canada is an important source of supply to world markets for resource materials of all kinds. However, whereas these were once shipped almost entirely in raw form, they are increasingly being processed in varying degrees before export.

The extent of this shift from raw materials to the higher stages of fabrication during the 1970s is to some extent obscured by the fact that export prices have tended to rise faster in the lower stages of fabrication than in the case of fully finished goods. Thus from 1971 to 1978 the export price index (currently weighted) for all Canadian domestic exports doubled. However, the export prices of crude materials (inedible) during this same period of time shows an increase of about two-and-three-quarter times; fabricated materials (inedible) increased by about one-and-three-quarter times, while export prices of fully finished goods rose by only three-quarters.

Export orientation of major manufacturing sectors in Canada, 1966 - 1978

(Per cent of production exported)

Manufacturing sector	Average 1966-1978	1978
Food and beverages	9.9	11.4
Tobacco products	0.5	0.5
Rubber and plastics	7.2	10.4
Leather industries	6.7	8.7
Textile industries	5.2	6.3
Knitting mills	1.9	1.4
Clothing industries	4.3	4.0
Wood industries	43.5	49.2
Furniture and fixtures	4.5	6.6
Paper and allied industries	52.9	54.8
Printing and publishing	2.3	3.0
Primary metal industries	45.4	47.7
Metal fabricating industries	5.0	6.8
Machinery industries	43.7	53.5
Transportation equipment industries	66.1	75.7
Electrical products industries	14.1	17.9
Non-metallic minerals	7.8	11.2
Petroleum and coal products	4.0	3.9
Chemical and chemical products	17.7	24.2
Miscellaneous manufacturing industries	19.6	19.4
Total manufacturing	25.9	29.8

NOTE: All values are in current dollars. Trade data are on a customs value basis, Trade of Canada. The trade data have been allocated to industrial sectors according to the 1970 Standard Industrial Classification. Shipment data for 1966-1976 are Census of Manufacturers. In 1977 and 1978 shipments data are derived from Inventories, Shipments and Orders in Manufacturing, Statistics Canada.

NOTE: Shipments are synonymous with "production".

Import penetration of major manufacturing sectors in Canada, 1966 - 1978

(Per cent of Canadian market supplied by imports)

Manufacturing sector	Average 1966-1978	1978
Food and beverages	8.5	10.3
Tobacco products	1.3	1.6
Rubber and plastics	21.2	23.1
Leather industries	27.9	32.9
Textile industries	25.5	27.1
Knitting mills	26.3	26.8
Clothing industries	9.1	9.6
Wood industries	10.4	9.6
Furniture and fixtures	9.5	12.5
Paper and allied industries	8.1	9.5
Printing and publishing	13.7	14.7
Primary metal industries	24.7	26.0
Metal fabricating industries	14.3	15.4
Machinery industries	70.0	74.9
Transportation equipment industries	68.2	76.7
Electrical products industries	31.3	39.2
Non-metallic minerals	15.9	17.4
Petroleum and coal products	5.7	3.7
Chemical and chemical products	28.4	32.2
Miscellaneous manufacturing industries	51.7	54.5
Total manufacturing	28.0	31.1

NOTE: All values are in current dollars. Trade data are on a customs value basis, Trade of Canada. The trade data have been allocated to industrial sectors according to the 1970 Standard Industrial Classification. Shipment data for 1966-1976 are Census of Manufacturers. In 1977 and 1978 shipments data are derived from Inventories, Shipments and Orders in Manufacturing, Statistics Canada.

NOTE: Shipments are synonymous with "production".

Degree of potential self-sufficiency of Canadian manufacturing sectors in Canada, 1966 - 1978

(Per cent of Canadian market supplied by Canadian production)

Manufacturing sector	Average 1966-1978	1978
Food and beverages	101.5	101.2
Tobacco products	99.2	99.0
Rubber and plastics	84.9	85.8
Leather industries	77.3	73.5
Textile industries	78.6	77.8
Knitting mills	75.1	74.3
Clothing industries	95.0	94.2
Wood industries	177.9	158.6
Furniture and fixtures	94.8	93.7
Paper and allied industries	195.0	200.1
Printing and publishing	88.3	88.0
Primary metal industries	137.8	141.5
Metal fabricating industries	90.3	90.7
Machinery industries	53.3	53.5
Transportation equipment industries	93.9	95.9
Electrical products industries	90.0	74.0
Non-metallic minerals	91.3	93.1
Petroleum and coal products	98.3	100.3
Chemical and chemical products	87.0	89.4
Miscellaneous manufacturing industries	60.1	56.4
Total manufacturing	97.1	98.2

NOTE: "Self-sufficiency" assumes that the production and trade are relatively homogeneous. This means that the "machinery" industries are either producing or are capable of producing what is being imported.

Canadian trade balance by manufacturing sector 1966 - 1978

(million dollars)

Manufacturing sector	Average 1966-1978	1978
Food and beverages	182	275
Tobacco products	-10	-5
Rubber and plastics	-278	-491
Leather industries	-154	-331
Textile industries	-568	-968
Knitting mills	-172	-306
Clothing industries	-99	-217
Wood industries	1,309	3,557
Furniture and fixtures	-58	-123
Paper and allied industries	2,761	5,174
Printing and publishing	-294	-555
Primary metal industries	1,438	2,914
Metal fabricating industries	-513	-883
Machinery industries	-2,304	-4,297
Transportation equipment industries	-586	-771
Electrical products industries	-877	-1,908
Non-metallic minerals	-189	-260
Petroleum and coal products	-70	27
Chemical and chemical products	-587	-942
Miscellaneous manufacturing industries	-997	-2,209
Total manufacturing	-2,062	-2,323

SOURCE: *Manufacturing Trade and Measures, 1966-1978,* Economic Intelligence Branch, Policy Planning, Department of Industry, Trade and Commerce, July 1979.

Selected data for sub-sectors of Canadian manufacturing 1966 - 1978 (average) and 1978

Industry sector	Export orientation per cent	Import penetration per cent	Degree of self-sufficiency per cent	Trade balance (millions $)
Agricultural implements				
1966-1978	66.5	79.4	61.6	-306
1978	64.8	79.3	58.9	-653
Iron and steel				
1966-1978	17.6	18.7	98.6	-33
1978	21.8	16.1	107.3	327
Steel pipe and tube				
1966-1978	24.4	28.0	95.3	-18
1978	31.7	36.6	92.8	-51
Aircraft & parts				
1966-1978	63.4	61.7	104.6	29
1978	61.0	60.1	102.4	27
Motor vehicles				
1966-1978	69.5	61.0	128.0	1,068
1978	61.0	60.1	102.4	27
Truck bodies & trailers				
1966-1978	0.8	10.1	90.6	-50
Motor vehicle parts				
1966-1978	89.7	94.3	55.4	-1,688
1978	102.8	101.6	55.3	-3,533
Shipbuilding & repair				
1966-1978	22.5	10.2	115.9	55
1978	29.3	8.4	129.5	154
Household radio & TV				
1966-1978	13.8	50.3	37.7	-189
1978	31.9	71.6	41.8	-416
Misc. machinery & equipment (except electrical)				
1966-1978	35.7	66.7	51.8	-1,619
1978	46.8	71.8	53.0	-2,897

When the focus is shifted to an examination of trends in the volume of Canadian exports by stage of fabrication, the extent of the underlying progress in upgrading resources prior to export is made clearer. Thus the volume (fixed weighted) of total domestic Canadian exports increased by 44 per cent between the calendar years 1971 and 1978. However, there was an actual decline in this period in the volume of exports of crude materials, inedible, of about 12 per cent; fabricated materials, inedible, advanced by 35 per cent in volume terms while the volume of exports of fully finished goods (excluding foods) nearly doubled during this same period.

Natural resources

Nevertheless, Canada's natural advantages in a highly competitive international environment continue to depend on its pre-eminence of natural resources. The four principal resource sectors are:

Agriculture: With more than 416,000 square kilometres of highly productive farmland, mostly in the prairie provinces of Manitoba, Saskatchewan and Alberta, Canada holds over one quarter of the market shared by the world's five principal wheat sellers, the other four being the United States, Australia and Argentina and the European Common Market. Livestock plays an important part in Canadian farm production, which also includes other grain crops, oilseeds and dairy products.

Fisheries: Commercial fish are caught chiefly along more than 19,000 kilometres of coastline on the Atlantic and some 11,000 kilometres on the Pacific. A continental shelf extending from both coasts provides water shallow enough to ensure ample feeding grounds and cold enough to give sea fish firm flesh and fine flavour. In addition, Canada reaps a rich harvest in fresh-water fish from large inland lakes.

Canada has co-operated with other nations to conserve high-seas fisheries resources through joint research projects and international agreements and took further action to protect and manage the fisheries in its coastal areas by extending its coastal fisheries jurisdiction to 200 nautical miles, effective January 1, 1977. Several bilateral agreements have been concluded with other countries to allow them to continue to fish within Canada's extended jurisdiction for stocks surplus to Canada's harvesting capacity.

Canada now ranks as the world's top fish-exporting country and its fishing grounds provide recreation to many visitors as well as Canadians.

The potential for providing greatly increased employment through further processing of fisheries resources, as a result of the extension of the coastal fisheries jurisdiction, is excellent.

Forestry: Canada's more than 2.5 million square kilometres of productive timber stands — a constantly renewable resource — places Canada in the

position of being one of the world's ranking exporters of forest products. Exports of wood, wood products and paper in 1978 amounted to $9,429 million, which was about 18 per cent of the value of all commodity exports. Softwood lumber accounted for one-third the value of all forest products exports; newsprint for 31 per cent, woodpulp for 23 per cent and the balance was in other wood and paper products.

The forests of Canada, which are largely coniferous, make up 35 per cent of the total land area. British Columbia, Ontario and Quebec are the most important timber-producing provinces.

Minerals: Canada leads the world in mineral exports and ranks third in mineral production behind the United States and the Soviet Union. The mineral industry has been a major factor in Canada's economic development. The strength of the industry is based on export sales. About 82 per cent of total mineral production was exported in one year recently.

Mineral production is divided into four sectors; metallics, non-metallics, mineral fuels and structural materials. Petroleum, natural gas, iron ore, copper, nickel and zinc together contribute more than three-quarters of total Canadian mineral output value, with petroleum and natural gas production and refining being Canada's largest mineral industry.

Canada is the world's leading producer of nickel, zinc and asbestos and is among the top two or three leading producers of the following: gold, uranium, molybdenum, titanium, gypsum, potash, silver, sulphur, cobalt, platinum metals and lead. Canada also ranks high in the production of iron ore, magnesium, copper, barites and several other minerals.

At present, there is special interest in Canada's extensive endowment in energy resources, crude petroleum, natural gas, coal, uranium and electric power. Canada currently has a net deficiency of about 15 per cent in crude petroleum requirements but this is well below the relative dependence on foreign supplies of nearly all major OECD countries. Because of the vast potential of its non-conventional sources of energy, chiefly frontier oil and gas and synthetic fuels, there has been increasing emphasis on attainment of relative self-sufficiency in energy requirements in the longer run, although this involves very large outlays of capital.

This will be accomplished through the building of pipelines, generating stations, development of the tar sands and heavy oil plants, offshore and Arctic production.

Geography and transportation

Canada is the largest country in the Western Hemisphere and the second largest in the world, the largest being the Soviet Union. From east to west

the greatest distance is more than 5,000 kilometres. It has an area of 9,922,330 square kilometres which vary from the almost semi-tropical Great Lakes peninsula and southwest Pacific coast to wide fertile prairies and great areas of mountains, rocks and lakes to northern wilderness and Arctic tundra.

Since its main topographic barriers extend in a north-south direction, whole sections of the country are separated by rough, rocky terrain between the Atlantic seaboard provinces and Quebec (the earliest settled lands) and vast stretches of rock, water and barren muskeg north of Lakes Huron and Superior over the 1,280 kilometres between Eastern Canada and the prairie provinces of Manitoba, Saskatchewan and Alberta. Finally, there is the Rocky Mountain barrier separating the prairies from the Pacific province of British Columbia. If the means to bridge these great natural barriers had not been found, Canada would probably never have achieved nationhood.

The highlights of transportation development and progress in Canada include the construction of the St. Lawrence canal system prior to 1867; the linking of the various sections of Canada by the railway systems; the coming of the motor-car; early exploration of the North by air; and the founding of national airlines. The Second World War was followed by the growth of truck transportation, the building of pipelines for oil and gas, the construction of the St. Lawrence Seaway, and the completion of the Trans-Canada Highway — not to mention the addition of major causeways, bridges, tunnels and ferries.

Canada has developed one of the finest transportation systems in the world. The publicly-owned Canadian National is North America's largest railway and the Canadian Pacific Railway Company is the world's largest stockholder-owned railway system.

The two major airlines, publicly-owned Air Canada and Canadian Pacific Airlines, which is stockholder-owned, provide exceptionally high standards of service and between them connect Canada with most of the world by regularly-scheduled passenger and cargo services over a total of more than 160,000 kilometres of air-routes.

The St. Lawrence Seaway, penetrating deep into the heart of North America, over 3,200 kilometres from the Atlantic, brings ocean shipping to the doorsteps of major industries, providing economic transportation for many of the continent's goods, thus greatly strengthening Canada's position as a major trading nation.

Pipelines have also been important in making it possible for Canada to develop its oil and natural-gas resources economically. One of the world's longest pipelines, for instance, runs from Edmonton, Alberta, over 3,200 kilometres to Port Credit, near Toronto, Ontario. More than 24,000 kilometres

of main transmission-lines have been built since the first oil discoveries in the late 1940s.

History of trade relations

In the years immediately before 1867, the colonies that then joined together in Confederation had enjoyed free trade with the United States in primary products. This had been sought by the colonies as an offset to earlier losses of preference in the British market; it had been negotiated by Britain in 1854 in the belief that it would promote economic viability in these British territories and thus help to avoid political union with the United States.

In 1866 the United States repealed the reciprocity pact, bringing considerable adverse influence to bear on Canada's trade and on investment in Canada. Confederation was, in part, a response to this situation, and the new nation immediately set about seeking better terms of access to the United States and British markets.

The results of these efforts were disappointing and so, in 1879, Canada adopted the high-tariff policy then in vogue in most trading countries other than Britain. This policy was aimed at fostering the growth of manufacturing industry in Canada and increasing revenues to finance new transportation facilities and general economic development. The system suffered, however, from a conflict between the two objectives, for it became evident that internal development hinged significantly on the ability to compete in export markets. There followed many years of seeking to maintain a delicate balance between measures to expand export trade and those providing protection for home-grown industry.

Thus, in 1907, partly for bargaining purposes, Canada adopted a tariff structure that provided for three levels of duty — preferential (favouring British and Commonwealth imports), intermediate, and general. A renewed effort to obtain reciprocity with the United States was rejected in the Canadian election of 1911.

In the light of large tariff increases in many countries following the depression of the 1930s and the serious international economic strains then in evidence, Britain, Canada and other members of the Commonwealth adopted a systematic, widespread plan of tariff preferences. In 1937-38, in return for United States tariff reductions, Canada and Britain also reduced tariffs and removed some preferences.

The disruption of the world financial and trading system in the 1930s and 1940s convinced many countries of the need for a fresh start. The result was the General Agreement on Tariffs and Trade, which Canada has strongly supported since its ratification in 1948. The agreement provides for scheduled tariff concessions and the exchange of most-favoured-nation treatment among the contracting parties, and lays down rules and regulations to govern the conduct of international trade. More

than 80 countries today subscribe to the GATT, which is both a trade treaty and an institution for trade negotiation, adaptation and settlement of disputes. The agreement has, in effect, become the basis for Canada's main commercial treaty — for Canada's commercial policy cannot be considered apart from trends in the world trading community.

Since the implementation of the GATT, there have been seven rounds of tariff negotiations, which have resulted in a significant reduction in barriers to trade. One of the relatively recent negotiations, the Kennedy Round of 1962-67, whose final tariff cuts were implemented in 1972, was at the time the most far-reaching and involved trade exchange, valued at approximately $45,000 million among some 50 countries. Canada was among the most active of the negotiators, with about $5,500-million worth of trade involved. Freer access to world markets was gained by Canada on exports worth some $3,000 million annually and Canadian tariffs were reduced on imports worth about $2,500 million annually. Canada participated in these negotiations on agreement by the other parties, as a country with special trade problems, and agreed to grant reciprocity for concessions received, though not entirely across the board.

Following the Kennedy Round, a gradual international consensus emerged that the time had come to contemplate further tariff reductions on a most-favoured-nation basis, to address non-tariff measures which had taken on more prominence after the Kennedy Round and to examine more sympathetically the trade needs of the developing countries.

Since the Kennedy Round, there has been a gradual build-up of protectionist pressure in the absence of initiatives for further trade liberalization. The American surcharge and other measures in August 1971 raised many questions about the durability of the existing international trade system and Canada's vulnerability to changes in the international environment. Some solutions may be achieved, however, as a result of further GATT negotiations in 1973 and 1974. Canadians generally welcomed a move to freer trade because this could open up new markets for Canadian exports, increase production and employment and provide opportunities for Canada to diversify trade with its major trading partners.

Canada's various objectives in the prolonged "Tokyo Round" multilateral trade and tariff negotiations (MTN), which commenced in 1973 and concluded in 1979, included the following:

—to reduce further the level of foreign tariffs facing Canadian exports and potential exports;

—to enlarge further the area of trade where Canadian products could enter foreign markets duty free, including the United States;

—to eliminate or reduce non-tariff barriers inhibiting Canadian exports;

—through a liberalization of trade, to enhance opportunities in Canada for investment in and production of more highly processed materials and foodstuffs, as well as fully manufactured goods;

—to make reductions in the level of Canadian tariffs consistent with a more competitive international environment but to limit tariff concessions in areas of particular employment and import sensitivity (such as textiles and footwear);

—to ensure that agreed-upon reductions in Canadian protection would be phased in over a sufficiently long period of time to permit orderly adjustment to the new trading environment; and

—to evolve desirable changes in international trading rules with respect to countervailing duties, anti-dumping duties and emergency action against imports causing injury to domestic producers while limiting the capacity of foreign governments to act arbitrarily against Canadian exports.

Many but not all of the general and particular objectives that Canada was seeking were attained. The Tokyo Round has not solved all the world trade problems in an increasingly interdependent and ever more competitive world economy.

The fact remains that the latest round of trade and tariff reductions were negotiated against a backdrop of international economic turmoil — energy shortages, sluggish economic growth, inflation, rising unemployment and resulting increased pressures for trade protection. Despite this, the Tokyo Round is generally conceded to have introduced a new and significant set of world trade guidelines leading to both freer and fairer international trade.

Post-MTN U.S. tariffs on manufactured goods will average about 4 per cent; and those of Japan and the European Economic Community will be about 6 per cent, while those of Canada will be about 9 or 10 per cent.

Canada, with many other participants, will be making no reductions or comparatively small reductions in tariffs on items such as textiles, clothing, footwear, ships and rail cars.

Under the new U.S.-Canada bilateral trade agreement, negotiated in 1979 as part of the GATT Tokyo Round, 80 per cent of all Canadian exports to the U.S. will be duty free. Another 15 per cent will enter at tariffs of 5 per cent or less.

On the reverse side of the coin, Canada will allow about 65 per cent of U.S. exports to enter duty free. Canada's average tariff on dutiable U.S. imports will be 8.5 per cent — down from 14.8 per cent under the old agreement but still more than double the average U.S. tariff on dutiable imports from Canada.

It may be noted that the tariff reductions are to be phased in over eight years commencing in 1980.

Foreign investment capital

External capital has always been important to Canada because the scarcity of domestic risk capital has often put limits on the pace of economic development and expansion. Thus, in the early years, because Canada was a country where transportation facilities were a necessity, a considerable part of non-resident capital was used to finance canals, roads, railways and similar installations.

In more recent years, external capital has also helped to finance new industries, mines and sources of power and to expand such industries as pulp and paper, non-ferrous smelting and refining, chemicals and petroleum.

In the earlier years of Canada's development, external capital came into the country in the form of direct investment and often through the medium of an international enterprise. The equity type of investment involved an element of foreign control over the business so financed. Also, however, it often provided the Canadian enterprise with easy access to the technology, management skills, marketing and procurement facilities of the larger international organization.

As the Canadian economy has grown and matured, it has been able to finance a larger part of its capital requirements from domestic sources — such as retained earnings, capital consumption allowances and domestic sources of credit. While foreign investment has continued to be welcome, the Government has adopted a number of measures to foster and protect the national interest. Limitations have been placed on foreign investment in banks, certain other financial institutions and certain communications media.

The development of strong Canadian-controlled business is being fostered through the establishment of the Federal Business Development Bank and by means of tax measures as well as by more direct grant and contribution programs.

In April 1973, the Government proclaimed the first part of the Foreign Investment Review Act, which provides that a foreign takeover will not

be permitted unless it is of significant benefit to Canada, and established a review agency to evaluate foreign take-over proposals.

On October 15, 1975, the Foreign Investment Review Act became completely effective with the introduction of phase 2, which prescribes screening by the Foreign Review Agency of certain types of new business established in Canada by foreign-controlled corporations, foreign individuals or foreign governments.

The estimated total book value of foreign direct investment in Canada in 1978 was about $50 billion; foreign portfolio investment in Canada had also reached a cumulative total of $50 billion. Other Canadian liabilities to foreigners were estimated at about $18 billion for a total foreign debt of $118 billion. This was partly offset by accumulated Canadian direct investment abroad of about $16 billion, portfolio investment totalling $11 billion and other external assets of about $27 billion.

As a result, net Canadian international indebtedness was about $60 billion in 1978.

The interest and dividend payments on this mounting external debt has become one of the fastest rising components of Canada's annual current account deficit. On a net basis, interest payments abroad amounted to $3.2 billion in 1978 along with an additional $1.1 billion in net dividends for a total of $4.3 billion paid out to non-residents in a single year. The latter sum accounts for about half the total non-merchandise trade deficit and over 80 per cent of the total current-account deficit.

Canada and international organizations
Because of the traditional strong feelings of Canadians for a multilateral approach to working out trading relations, Canada has consistently supported various international organizations in the commercial and aid fields. Canada participates actively in the Organization for Economic Co-operation and Development (OECD), the Customs Co-operation Council, the United Nations Conference on Trade and Development, the Food and Agriculture Organization (Canada was host to the founding conference), the World Bank Group, the United Nations Development Program, the Inter-American Development Bank, the Caribbean Development Bank and the Asian Development Bank.

APPENDICES

Table 1
Canadian exports by leading countries, comparison of totals*

Rank in:								
1971	1972	1973	1978		1971	1972	1973	1978
						(millions $U.S.)		
1	1	1	1	United States	12,080	14,111	17,107	31,192
3	3	2	2	Japan	784	972	1,799	2,576
2	2	3	3	Britain	1,348	1,342	1,588	1,659
4	4	4	4	West Germany	317	319	444	663
6	8	5	10	Italy	208	204	295	401
13	5	6	7	U.S.S.R.	126	287	292	478
7	6	7	8	China	202	262	288	424
5	7	8	6	Netherlands	233	254	287	483
10	9	9	11	Belgium and Luxembourg	179	200	284	381
11	11	10	9	France	155	158	216	402
9	10	11	13	Australia	181	158	210	339
8	12	12	22	Norway	185	155	181	122
12	15	13	14	India	150	100	157	202
16	14	14	16	Mexico	80	101	120	192

15	16	15	12	Brazil	92	89	113	350
14	13	16	5	Venezuela	120	148	103	580
20	19	17	18	Cuba	56	59	82	185
22	21	18	24	Switzerland	38	46	70	102
18	18	19	23	Spain	65	58	67	111
17	22	20	–	South Africa	66	44	60	–
21	20	21	–	Sweden	44	46	60	–
19	17	22	–	Peru	65	61	52	–
			15	Saudia Arabia				200
			17	Poland				190
			19	Korea				182
			20	Algeria				136
			21	Iran				130
				Total above countries	16,774	19,174	23,875	41,680
				Total all countries	17,676	20,178	25,196	44,333

Source: *UN Commodity Trade Statistics,* ITC International Trade Data Bank

*Countries listed according to rank in 1973

Table 2
Canadian imports by leading countries, comparison of totals*

Rank in: 1971	1972	1973	1978		1971	1972	1973	1978
					(millions $U.S.)			
1	1	1	1	United States	10,854	13,055	16,504	29,488
2	2	2	2	Japan	794	1,116	1,018	1,910
3	3	3	3	Britain	824	958	1,006	1,344
4	4	4	5	West Germany	426	518	606	1,045
5	5	5	4	Venezuela	384	415	522	1,081
6	6	6	7	France	211	253	326	576
7	7	7	9	Italy	156	206	238	442
8	8	8	12	Australia	125	196	236	290
9	9	9	14	Sweden	112	133	167	274
11	10	10	10	Taiwan	80	127	163	335
14	16	11	8	Iran	66	72	132	501
10	12	12	15	Switzerland	85	103	118	240
13	13	13	17	Netherlands	76	91	118	191

12	11	14	13	Hong Kong	79	106	110	280
15	14	15	18	Belgium-Luxembourg	59	90	104	170
19	17	16	16	Brazil	50	62	88	209
17	19	17	20	South Africa	54	60	86	118
20	21	18	19	Mexico	49	54	83	155
16	18	19	–	Nigeria	56	61	82	–
18	15	20	–	Norway	53	78	78	–
22	20	21	6	Saudia Arabia	28	55	60	632
21	22	22	–	Austria	42	47	59	–
			11	Korea				306
			21	Spain				114
			22	Iraq				111
			23	Ecuador				89
			24	New Zealand				85
				Total above countries	14,711	17,908	21,958	39,986
				Total all countries	15,460	18,922	23,305	41,846

Source: *UN Commodity Trade Statistics,* ITC International Trade Data Bank

*Countries listed according to rank in 1973

Appendix B

Canadian exports 1963 and 1978 by standard international trade classification (SITC)

(millions $U.S.)

SITC No.	Description	1963 Value	1963 % Share	1978 Value	1978 % Share	1963-1978 Change %
0 & 1[1]	Food & beverages	1,350	21	4,464	10	+231
041	Wheat	730	11	1,611	4	+121
2 & 4[1]	Crude materials	1,926	30	8,477	19	+340
243	Wood	421	7	2,740	6	+551
251	Pulp	381	6	1,852	4	+386
27	Crude minerals	175	3	746	8	+326
28	Metal ores	652	10	2,026	5	+211
3[1]	Energy materials	325	5	4,912	12	+1,411
5 & 6[1]	Fabricated materials	2,054	3	10,347	22	+403
641	Paper & paper-board	754	12	2,916	7	+287
68	Non-ferrous metals	707	11	2,393	5	+239
7 & 8 & 9[1]	End-products	817	13	16,174	37	+1,880
732	Road motor-vehicles	73	1	9,579	22	+13,060
	Total Trade	6,477[1]	100[1]	44,333[1]	100[1]	+585

1 Represents total trade figures and Percentage Share

Source: UN *Commodity Trade Statistics,* ITC International Trade Data Bank

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